

Executive Summary

The use of individuals' credit histories to predict the risk of future loss has become a common practice among automobile and homeowners insurers. The practice has proven to be controversial not only because of concerns about how reliably credit scores may predict risk. Many industry professionals, policymakers, and consumer groups have expressed concern that the practice may pose a significant barrier to economically vulnerable segments of the population in obtaining affordable automobile and homeowners coverage.

This study finds evidence that justifies such concerns.

Four questions are addressed in the study:

1. Is there a correlation between place of residence and insurance-based credit scores (called "credit scores" or "scores" throughout the remainder of this report)? Specifically, do residents of areas with high minority concentrations have worse average scores?
2. Do residents of poorer communities have worse average scores?
3. If credit scoring has a disproportionate impact on residents of communities with high minority concentrations, what other socioeconomic factors might account for this fact?
4. Do minorities and poorer individuals tend to have worse scores than others, irrespective of place of residence?

For this report, the category 'minority' includes all Missourians who identified themselves as African-American or Hispanic in the 2000 census. A separate analysis of African-Americans resulted in no substantive difference from the results presented here.

Data

Credit score data was solicited from the 20 largest automobile and homeowners writers in Missouri for the period 1999-2001. Of these, 12—individually or combined with sister companies—had used a single credit scoring product for a sufficient period of time to generate a credible sample. In some instances, a single company is displayed as two separate "companies" representing separate analyses of automobile and homeowners coverage. In other instances, sister companies were combined to yield a more statistically credible sample. The net result of these combinations is the 12 "companies" presented in the report.

Companies That Submitted Data for this Report

NAIC	
Code	Name
16322	Progressive Halcyon Insurance Co.
17230	Allstate Property & Casualty Insurance Co.
19240	Allstate Indemnity Co.
21628	Farmers Insurance Co., Inc.
21660	Fire Insurance Exchange
21687	Mid-Century Insurance Co.
22063	Government Employees Insurance Co.
25143	State Farm Fire And Casualty Co.
25178	State Farm Mutual Automobile Insurance Co.
27235	Auto Club Family Insurance Co.
35582	Government General Insurance Co.
42994	Progressive Classic Insurance Co.

Additional information about how the Missouri's largest insurers use credit scores can be found at the MDI web site, www.insurance.mo.gov.

The companies provided average credit scores by ZIP Code, as well as the distribution of exposures (automobiles and homes) across five credit score intervals representing equal numeric ranges. Both the average score and the percent of exposures in the worst three intervals are used to assess to the degree to which race and ethnicity and socioeconomic status are correlated with credit scores.

Because of the nature of the data, results are presented from two categorically distinct levels of analysis:

1. *Aggregate level*—Inferences about **residents in areas with high minority concentrations or areas with lower incomes**. This level of analysis does not purport to make inferences about minority or lower-income individuals *per se*.
2. *Individual level*—Assessments of the likely impact of credit scores on minority **individuals**, without reference to place of residence. These results make use of statistical models that are widely employed in the social sciences, but findings are somewhat more speculative than are the aggregate level results.

Findings.

1. On average, residents of areas with high minority concentrations tend to have significantly worse credit scores than individuals who reside elsewhere.
2. On average, residents of poor communities tend to have significantly worse credit scores than those who reside elsewhere.

Given the variation in credit scoring methodologies, raw credit scores possess no intrinsic meaning, and comparing raw scores across companies is of limited value. Normalized or "standardized" results afford more meaningful comparisons. Averaged across all companies, the spread in standardized scores between "no minority" and "all minority"² ZIP Codes was 38.9 percentiles—a very considerable gap.³ For more than half of the companies, the average scores of individuals residing in minority ZIP Codes fell into the bottom one-tenth of scores (that is, at or lower than the 10th percentile). The average score of individuals residing in non-minority ZIP Codes fell into the upper one-half of scores for every company.

The last three columns of the table display percentile differences by income group. On average, ZIP Codes with a *per capita* income of \$25,924 (the top 5 percent of ZIP Codes) had scores that were 12.8 percentiles higher than ZIP Codes with a *per capita* income of \$10,953 (the bottom 5 percent of ZIP Codes).

² The statistical models incorporate data from all ZIP Codes to determine the overall relationship between minority concentration and credit scores. Estimates derived from the models are presented here at the extremes of 0 percent and 100 percent minority concentration for expository reasons (the meaning of values at the extremes is usually more intuitive). For example, if the regression model indicated that every percentage point increase in minority concentration is associated with a decrease in credit scores of 1.68 points, the impact of increasing minority concentration to 100 percent would be a decline of 168 points. In reality, there are no ZIP Codes whose residents are all minorities, though several ZIP Codes have more than 95 percent minority concentration.

³ Percentile differences are based on normalized scores ranging from 0 to 100, and represent the rank of a score relative to all other scores in the sample. Such percentiles are exactly analogous to those used for reporting standardized test results. For example, a score falling in the 75th percentile means the score is among the top one-fourth of scores. The numbers reported in the table below represent the percentile difference between high and low minority ZIPs. For example, if the average score of high minority ZIP Codes was at the 20th percentile, and those for low minorities at the 80th percentile, the difference is 60 percentiles.

**Standardized Credit Scores (Percentiles) by Minority Concentration and *Per Capita*
Income in ZIP Code**

Results of Weighted OLS Regression of Average Credit Score
Scores Coded So that a *Lower* Score is *Worse*

Company ⁴	Average Score Percentile by Minority Concentration (on a scale of 100)			Average Score Percentile by <i>Per Capita</i> Income (on a scale of 100)		
	100% Minority	0% Minority	Percentile Difference	\$10,953 (Poorest 5% of ZIP Codes)	\$25,924 (Wealthiest 5% of ZIP Codes)	Difference
A	24.2	54.0	29.8	35.9	51.6	15.7
B	2.1	59.5	57.4	37.8	52.4	14.6
C	5.8	59.1	53.4	30.5	52.4	21.9
D	11.9	56.4	44.5	44.4	52.8	8.4
E	12.3	57.9	45.6	46.8	54.8	8.0
F	30.5	59.5	29.0	46.0	57.9	11.9
G	29.1	59.1	30.0	42.9	56.8	13.9
H*	22.4	56.0	33.6	45.2	52.8	7.6
I*	33.0	50.8	17.8	41.3	48.0	6.7
J	14.2	59.9	45.6	40.5	55.2	14.7
K	25.1	55.6	30.4	44.0	53.6	9.6
L	9.7	59.5	49.8	34.8	55.2	20.3
Average (Unweighted)	18.4	57.3	38.9	40.9	53.6	12.8

**These two companies were unable to provide MDI with raw credit scores. Data thus consists of scores that have been furthered modified based on non-credit related information prior to being used for rating / underwriting.*

In addition to average credit scores by ZIP Code, the number of exposures⁵ in five equal credit score intervals was also collected; each interval represents the range of scores divided by five.⁶ The proportion of exposures in the worst three intervals was used, as a parallel measure to average scores, to assess the association between race and income and credit scores. On average, a 26.2 percentage point difference existed in the proportion of exposures in the worst credit score group between "all minority" and non-minority ZIP Codes. The corresponding gap between the wealthiest and poorest income groups was 7.4 percentage points.

Estimates for additional levels of minority concentration and *per capita* income are displayed in the following four tables.

⁴ This report represents an analysis of credit scoring in general, and not the compliance of a specific company with any laws, nor the degree to which a company deviated from the norm. Thus, no individual companies are identified when displaying results.

⁵ One "exposure" is equal to one year of coverage for one automobile or home.

⁶ For clarification, credit score intervals are not quintiles where each interval represents an equal number of exposures. Rather, each interval is an equal numeric range in credit scores, and exposures are not distributed equally between intervals.

**Percent of Exposures in Worst 3 Credit Score Intervals
by % Minority and *Per Capita* Income in a ZIP Code**
Results of Weighted OLS Regression

Company	Scores in Worst Group by Percent Minority			Scores in Worst Group by <i>Per Capita</i> Income		
	0% Minority	100% Minority	Difference	\$10,953 (Poorest 5% of ZIP Codes)	\$25,924 (Wealthiest 5% of ZIP Codes)	Difference
A	41.4%	64.8%	23.4%	52.4%	44.4%	8.0%
B	8.9%	53.7%	44.9%	19.4%	12.5%	6.9%
C	20.5%	61.7%	41.2%	35.8%	25.1%	10.7%
D	26.7%	57.2%	30.6%	34.4%	28.2%	6.2%
E	33.7%	73.2%	39.5%	42.6%	35.9%	6.7%
F	38.9%	62.3%	23.5%	50.9%	39.5%	11.3%
G	14.5%	31.9%	17.4%	22.9%	16.2%	6.7%
H	21.7%	37.1%	15.5%	26.7%	22.9%	3.8%
I	68.3%	79.7%	11.4%	75.0%	68.0%	7.0%
J	12.1%	30.4%	18.3%	19.0%	13.8%	5.2%
K	13.2%	28.4%	15.2%	18.6%	14.2%	4.4%
L	21.8%	55.5%	33.7%	35.9%	24.1%	11.8%
Average (Unweighted)	26.8%	53.0%	26.2%	36.1%	28.7%	7.4%

Standardized Credit Scores (Percentiles) by % Minority in a ZIP Code
Results of Weighted OLS Regression of Average Credit Score
Scores Coded So that a *Lower* Score is *Worse*

Company	0% Minority	25% Minority	50% Minority	75% Minority	90% Minority	100% Minority
A	54.0	46.0	38.2	30.9	26.8	24.2
B	59.5	37.1	18.4	7.2	3.6	2.1
C	59.2	41.3	24.2	13.1	8.2	5.8
D	56.4	42.9	30.5	20.1	14.9	11.9
E	57.9	44.4	31.6	20.6	15.2	12.3
F	59.5	48.0	44.8	37.5	33.0	30.5
G	59.1	48.4	43.6	36.3	31.9	29.1
H	56.0	46.8	37.8	29.8	25.1	22.4
I	50.8	46.0	41.7	37.1	34.5	33.0
J	59.9	46.8	34.1	23.0	17.4	14.2
K	55.6	47.6	39.4	31.9	27.8	25.1
L	59.5	44.0	29.8	17.9	12.5	9.7
Average	57.3	44.9	34.5	25.4	20.9	18.4

**Percent of Exposures in Worst 3 Credit Score Intervals
by % Minority in a ZIP Code**

Results of Weighted OLS Regression

Company	0% Minority	25% Minority	50% Minority	75% Minority	90% Minority	95% Minority	100% Minority
A	41.4	47.2	53.1	58.9	62.4	63.6	64.8
B	8.9	20.1	31.3	42.5	49.2	51.5	53.7
C	20.5	30.8	41.1	51.4	57.6	59.6	61.7
D	26.7	34.3	42.0	49.6	54.2	55.7	57.2
E	33.7	43.6	53.5	63.3	69.2	71.2	73.2
F	38.9	44.7	50.6	56.5	60.0	61.2	62.3
G	14.5	18.9	23.2	27.6	30.2	31.0	31.9
H	21.7	25.5	29.4	33.3	35.6	36.4	37.1
I	68.3	71.2	74.0	76.9	78.6	79.2	79.7
J	12.1	16.7	21.2	25.8	28.5	29.5	30.4
K	13.2	17.0	20.8	24.6	26.9	27.6	28.4
L	21.8	30.2	38.6	47.1	52.1	53.8	55.5
Average	26.8	33.4	39.9	46.4	50.4	51.7	53.0

Standardized Credit Scores (Percentiles) by Per Capita Income in ZIP Code

Results of Weighted OLS Regression of Average Credit Score

Scores Coded So that a *Lower* Score is *Worse*

Company	Bottom 1% (\$8,642)	Quartile 1 (\$13,335)	Quartile 2 (\$15,326)	Quartile 3 (\$18,092)	Top 1% (\$50,536)
A	33.4	38.2	40.5	43.3	76.1
B	35.9	40.1	42.1	44.8	74.5
C	27.4	33.7	36.7	40.5	84.1
D	43.3	45.6	47.2	48.4	65.9
E	45.2	48.0	49.2	50.4	67.7
F	44.0	48.0	49.6	51.6	75.5
G	40.9	45.2	46.8	49.6	76.7
H	44.0	46.4	47.6	48.8	64.4
I	40.1	42.5	43.3	44.4	59.1
J	38.2	42.9	44.8	47.6	77.0
K	42.5	45.6	46.8	48.4	68.4
L	31.9	37.8	40.5	48.8	83.7
Average (Unweighted)	38.9	42.8	44.6	47.2	72.8

**Percent of Exposures in Worst Three Credit Score Intervals
by *Per Capita* Income a ZIP Code**
Results of Weighted OLS Regression

Company	Bottom 1% (\$8,642)	Quartile 1 (13,335)	Quartile 2 (15,326)	Quartile 3 (18,092)	Top 1% (50,536)
A	53.6	51.1	50.1	48.6	31.6
B	20.5	18.3	17.4	16.1	1.4
C	37.4	34.1	32.6	30.7	7.9
D	35.3	33.4	32.6	31.4	18.3
E	43.6	41.5	40.6	39.4	25.1
F	52.6	49.1	47.6	45.5	21.3
G	23.9	21.8	20.9	19.7	5.4
H	27.3	26.1	25.6	24.8	16.7
I	76.1	73.9	73.0	71.7	56.8
J	19.8	18.2	17.5	16.5	5.5
K	19.3	17.9	17.3	16.5	7.2
L	37.7	34.0	32.4	30.2	5.1
Average (Unweighted)	37.3	34.9	34.0	32.6	16.9

3. Credit scores are significantly correlated with minority concentration in a ZIP Code, even after controlling for income, educational attainment, marital status, urban residence, the unemployment rate and other socioeconomic factors.

Statistical models were used to control for—i.e., remove—the impact of socioeconomic factors that might account for the correlation between race/ethnicity and credit scores. The inclusion of such controls slightly weakened, but by no means eliminated (or accounted for) the association between minority status and credit scores. Among all such control variables, race/ethnicity proved to be the most robust single predictor of credit scores; in most instances it had a significantly greater impact than education, marital status, income and housing values. It was also the only variable for which a consistent correlation was found across all companies.

Other variables found to be significantly correlated with credit scores across the majority of companies were educational attainment, age, marital status, and urban residence.

Why scores should be correlated with minority status, even after controlling for such broad measures of socioeconomic status, is not immediately clear. Such a result indicates that the variable “minority concentration” contains unique characteristics not contained in the “control” variables. For example, credit scores may reflect factors uniquely associated

with racial status (such as limited access to credit, for example). The results clearly call for further study.

4. The minority status and income levels of *individuals* are correlated with credit scores, regardless of place of residence.

Three different statistical models were used to assess differences in scores between minority and low-income **individuals**, as opposed to **residents of high minority or low-income areas** (not all of whom, of course, are minorities or poor). Based on the most credible of the three models, African-American and Hispanic insureds had scores in the worst credit score group at a rate of about 30 percentage points higher than did other individuals (for example, where 30 percent of one group may have poor scores, compared to 60 percent of another group). A gap of 30 percentage points also existed between individuals earning below and above the median family income for Missouri. Across companies, the gap for minority status ranged from 14 percent to 48 percent; and for income the gap ranged from 17 to 46 percent.

Difference in % of individuals in the worst 3 (of 5) credit score intervals
Estimates of Gary King's Ecological Inference (EI) Model⁷

Company	Minority Status (% of minorities with low scores minus % of non- minorities with low scores)	Income (% of lower-income individuals with low scores minus % of higher- income individuals with low scores)
A	19.1%	27.7%
B	39.5%	16.8%
C	42.1%	46.1%
D	30.6%	22.5%
E	47.9%	28.5%
F	25.8%	35.6%
G	14.5%	21.0%
H	29.1%	32.8%
J	15.0%	26.7%
K	15.3%	26.4%
L	38.5%	37.2%
Unweighted Average	28.9%	29.2%

⁷ The EI model is one of three employed in this report to make individual-level inferences. The other two are Goodman's Regression and the "Neighborhood" model, each of which is explained in the body of the report.

While considerable variation exists among the three models with respect to the magnitude of estimates, all three consistently estimated a disproportionate impact based on the minority status of individuals and an individual's family income.

Because the data is composed of ZIP Code level aggregates, inferences about individual-level characteristics are somewhat more speculative than are inferences about the demographic characteristics of place of residence. Individual-level estimates in this report result from three of the most widely-used statistical models for such purposes. *While the model results are not "proof" of an individual-level disproportionate impact, the evidence appears to be substantial, credible and compelling.*

No. 791. Flow of Funds Accounts—Assets of Households: 1980 to 1999

[As of December 31 (6,563 represents \$6,563,000,000,000). Includes nonprofit organizations]

Type of Instrument	Total (bil. dol.)							Percent distribution		
	1980	1985	1990	1995	1997	1998	1999	1980	1990	1999
Total financial assets	6,563	10,100	14,963	21,834	27,628	30,583	34,948	100.0	100.0	100.0
Deposits	1,517	2,484	3,265	3,366	3,807	4,165	4,338	23.1	21.8	12.4
Foreign deposits	8	13	23	42	42	45	45	0.1	0.1	0.1
Checkable deposits and currency	251	342	409	505	445	461	442	3.8	2.7	1.3
Time and savings deposits	1,203	1,941	2,477	2,388	2,725	2,924	3,013	18.3	16.6	8.6
Money market fund shares	62	193	365	449	595	738	838	0.9	2.4	2.4
Credit market instruments	425	849	1,503	1,885	1,873	1,781	1,860	6.5	10.0	5.8
Open-market paper	38	35	63	48	59	63	69	0.6	0.4	0.2
U.S. Government securities	166	270	529	822	721	552	659	2.5	3.5	1.9
Treasury issues	160	251	462	700	511	391	347	2.4	3.1	1.0
Savings bonds	73	80	126	185	187	187	186	1.1	0.8	0.5
Other Treasury	88	171	335	515	325	204	160	1.3	2.2	0.5
Agency issues	5	19	67	122	209	162	312	0.1	0.4	0.9
Municipal securities	104	346	574	458	464	475	528	1.6	3.8	1.5
Corporate and foreign bonds	30	77	192	448	521	581	596	0.5	1.3	1.7
Mortgages	87	120	144	109	109	109	110	1.3	1.0	0.3
Corporate equities	875	1,058	1,807	4,122	5,690	6,339	8,009	13.3	12.1	22.9
Mutual fund shares	46	198	468	1,265	2,057	2,501	3,104	0.7	3.1	8.9
Security credit	16	35	62	128	215	277	319	0.2	0.4	0.9
Life insurance reserves	221	264	392	566	665	718	772	3.4	2.6	2.2
Pension fund reserves	971	2,087	3,462	5,768	7,894	9,079	10,360	14.8	23.1	29.6
Investment in bank personal trusts	286	384	552	803	943	1,001	1,117	4.0	3.7	3.2
Equity in noncorporate business	2,154	2,607	3,230	3,640	4,172	4,395	4,630	32.8	21.6	13.2
Miscellaneous assets	74	133	224	292	312	327	339	1.1	1.5	1.0

- Represents zero. ¹ Only those directly held and those in closed-end funds. Other equities are included in mutual funds, life insurance and pension reserves, and bank personal trusts. ² See also Table 846.

Source: Board of Governors of the Federal Reserve System, "Federal Reserve Statistical Release, Z.1, Flow of Funds Accounts of the United States"; published: 10 March 2000; <http://www.bog.frb.fed.us/releases/Z1/20000310/data.htm>.

No. 792. Financial Assets Held by Families by Type of Asset: 1992 to 1998

[Median value in thousands of constant 1998 dollars (13.1 represents \$13,100). Constant dollar figures are based on consumer price index data published by U.S. Bureau of Labor Statistics. Families include one-person units; for definition of family, see text, Section 1, Population, Based on Survey of Consumer Finance; see Appendix III. For definition of median, see Guide to Tabular Presentation]

Age of family head and family income	Any financial asset	Transaction accounts ²	Certificates of deposit	Savings bonds	Stocks ³	Mutual funds ⁴	Retirement accounts ⁵	Life insurance ⁶	Other managed ⁷
PERCENT OF FAMILIES OWNING ASSET									
1992, total	90.2	86.9	16.7	22.3	17.0	10.4	39.6	34.9	4.0
1995, total	91.0	87.0	14.3	22.8	15.2	12.3	45.2	32.0	3.9
1998, total	92.9	90.5	15.3	19.3	19.2	16.5	48.8	29.6	5.9
Under 35 years old	88.6	84.6	6.2	17.2	13.1	12.2	39.8	18.0	1.9
35 to 44 years old	93.3	90.5	9.4	24.9	18.9	16.0	59.5	29.0	3.9
45 to 54 years old	94.9	93.5	11.8	21.8	22.6	23.0	59.2	32.9	6.5
55 to 64 years old	95.6	93.9	18.6	18.1	25.0	15.2	58.3	35.8	6.5
65 to 74 years old	95.6	94.1	29.9	18.1	21.0	18.0	46.1	30.1	11.8
75 years old and over	92.1	89.7	35.9	12.0	18.0	15.1	16.7	32.6	11.6
Less than \$10,000	70.6	61.9	7.7	3.5	3.8	1.9	6.4	15.7	(B)
\$10,000 to \$24,999	89.9	86.5	16.8	10.2	7.2	7.6	25.4	20.9	4.9
\$25,000 to \$49,999	97.3	95.8	15.9	20.4	17.7	14.0	54.2	28.1	3.9
\$50,000 to \$99,999	99.8	99.3	16.4	30.6	27.7	25.8	73.5	39.8	8.0
\$100,000 and more	100.0	100.0	16.8	32.3	56.6	44.8	88.6	50.1	15.8
MEDIAN VALUE ⁸									
1992, total	13.1	2.6	12.6	0.7	9.1	18.3	16.0	3.5	22.8
1995, total	16.5	2.3	10.6	1.1	9.6	21.2	18.1	5.3	31.9
1998, total	22.4	3.1	15.0	1.0	17.5	25.0	24.0	7.3	31.5
Under 35 years old	4.5	1.5	2.5	0.5	5.0	7.0	7.0	2.7	19.4
35 to 44 years old	22.9	2.8	8.0	0.7	12.0	14.0	21.0	8.5	25.0
45 to 54 years old	37.8	4.5	11.5	1.0	24.0	30.0	34.0	10.0	39.3
55 to 64 years old	45.6	4.1	17.0	1.5	21.0	58.0	48.8	9.5	65.0
65 to 74 years old	45.8	5.6	20.0	2.0	50.0	60.0	38.0	8.5	41.3
75 years old and over	36.6	6.1	30.0	5.0	50.0	59.0	30.0	5.0	30.0
Less than \$10,000	1.1	0.5	7.0	1.8	14.0	6.0	7.5	3.0	(B)
\$10,000 to \$24,999	4.8	1.3	20.0	1.0	10.0	26.0	8.0	5.0	30.0
\$25,000 to \$49,999	17.6	2.5	14.5	0.6	8.0	11.0	13.0	5.0	15.0
\$50,000 to \$99,999	57.2	6.0	13.3	1.0	15.0	23.0	31.0	8.5	32.0
\$100,000 and more	244.3	19.0	22.0	1.5	55.0	65.0	93.0	18.0	100.0

B Base figure too small. ¹ Includes other types of financial assets, not shown separately. ² Checking, savings, and money market deposit accounts, money market mutual funds, and call accounts at brokerages. ³ Covers only those stocks that are directly held by families outside mutual funds, retirement accounts and other managed assets. ⁴ Excludes money market mutual funds and funds held through retirement accounts or other managed assets. ⁵ Covers IRAs, Keogh accounts, and certain employer-sponsored accounts. ⁶ Cash value. ⁷ Includes personal annuities and trusts with an equity interest and managed investment accounts. ⁸ Median value of financial asset for families holding such assets.

Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, January 2000, and unpublished revisions.

No. 793. Flow of Funds Accounts—Liabilities of Households: 1980 to 1999

[As of December 31 (1,426 represents \$1,426,000,000,000). Includes nonprofit organizations]

Type of instrument	Total (bil. dol.)							Percent distribution		
	1980	1985	1990	1995	1997	1998	1999	1980	1990	1999
Total liabilities	1,426	2,326	3,679	4,982	5,708	6,206	6,841	100.0	100.0	100.0
Credit market instruments	1,374	2,236	3,554	4,783	5,438	5,910	6,467	95.4	96.6	94.5
Home mortgages	905	1,408	2,461	3,252	3,698	4,058	4,480	63.6	68.9	65.6
Consumer credit	355	604	805	1,123	1,254	1,332	1,429	24.9	21.9	20.9
Municipal securities	17	81	87	98	115	127	137	1.2	2.4	2.0
Bank loans, n.e.c. ¹	28	31	18	57	67	73	65	2.0	0.5	1.0
Other loans	55	79	101	160	191	204	219	3.8	2.7	3.2
Commercial mortgages	15	33	83	92	104	117	137	1.0	2.2	2.0
Security credit	25	51	39	79	131	153	222	1.7	1.1	3.3
Trade payables	14	24	69	103	120	126	133	1.0	1.9	1.9
Unpaid life insurance premiums ²	13	15	16	18	19	17	19	0.9	0.4	0.3

¹ Not elsewhere classified. ² Includes deferred premiums.

Source: Board of Governors of the Federal Reserve System, "Federal Reserve Statistical Release, Z.1, Flow of Funds Accounts of the United States", published: 10 March 2000; <<http://www.bog.frb.fed.us/releases/Z1/20000310/data.htm>>.

No. 794. Financial Debt Held by Families by Type of Debt: 1992 to 1998

[Median debt in thousands of constant 1998 dollars (19.9 represents \$19,900). See headnote, Table 792]

Age of family head and family income	Any debt	Home- secured debt ¹	Installment	Other lines of credit	Credit card balances ²	Other residential property	Other debt ³
PERCENT OF FAMILIES HOLDING DEBTS							
1992, total	73.2	39.1	46.0	2.3	43.7	5.7	8.4
1995, total	74.5	41.0	45.9	1.9	47.3	4.7	8.5
1998, total	74.1	43.1	43.7	2.3	44.1	5.1	8.8
Under 35 years old	81.2	33.2	80.0	2.4	50.7	2.0	9.6
35 to 44 years old	87.6	58.7	53.3	3.6	51.3	6.7	11.4
45 to 54 years old	87.0	58.8	51.2	3.6	52.5	6.7	11.1
55 to 64 years old	76.4	49.4	37.9	1.6	45.7	7.8	8.3
65 to 74 years old	51.4	26.0	20.2	(B)	29.2	5.1	4.1
75 years old and over	24.6	11.5	4.2	(B)	11.2	1.8	2.0
Less than \$10,000	41.7	8.3	25.7	(B)	20.6	(B)	3.6
\$10,000 to \$24,999	63.7	21.3	34.4	1.2	37.9	1.8	7.0
\$25,000 to \$49,999	79.6	43.7	50.0	2.9	49.9	4.1	7.7
\$50,000 to \$99,999	89.4	71.0	55.0	3.3	56.7	7.7	12.2
\$100,000 and more	87.8	73.4	43.2	2.6	40.4	16.4	14.8
MEDIAN DEBT ⁴							
1992, total	19.9	50.2	5.3	2.3	1.1	28.5	2.9
1995, total	23.4	54.9	6.4	3.7	1.6	31.9	2.1
1998, total	33.3	62.0	8.7	2.5	1.7	40.0	3.0
Under 35 years old	19.2	71.0	9.1	1.0	1.5	66.0	1.7
35 to 44 years old	55.7	70.0	7.7	1.4	2.0	40.0	3.0
45 to 54 years old	48.4	68.8	10.0	3.0	1.8	40.0	5.0
55 to 64 years old	34.6	49.4	8.3	4.9	2.0	41.0	5.0
65 to 74 years old	11.9	29.0	6.5	(B)	1.1	56.0	4.5
75 years old and over	8.0	21.2	8.9	(B)	0.7	29.8	1.7
Less than \$10,000	4.1	16.0	4.0	(B)	1.1	(B)	0.6
\$10,000 to \$24,999	8.0	34.2	6.0	1.1	1.0	34.0	1.3
\$25,000 to \$49,999	27.1	47.0	8.0	3.0	1.9	20.0	2.2
\$50,000 to \$99,999	75.0	75.0	11.3	2.8	2.4	42.0	3.8
\$100,000 and more	135.4	123.8	15.4	5.0	3.2	60.0	10.0

B Base figure too small. ¹ First and second mortgages and home equity loans and lines of credit secured by the primary residence. ² Families that had an outstanding balance on any of their credit cards after paying their most recent bills.

³ Includes loans on insurance policies, loans against pension accounts, borrowing on margin accounts and unclassified loans.

⁴ Median amount of financial debt for families holding such debts.

No. 795. Percent Distribution of Amount of Debt Held by Families: 1995 and 1998

[See headnote, Table 796]

Type of debt	1995	1998	Purpose of debt	1995	1998	Type of lending institution	1995	1998
Total	100.0	100.0	Total	100.0	100.0	Total	100.0	100.0
Home-secured debt	73.3	71.9	Home purchase	70.4	68.1	Commercial bank	35.1	32.6
Installment loans	11.8	12.6	Home improvement	2.0	2.0	Savings and loan	10.8	9.6
Credit card balances	3.9	3.8	Investment, excluding real estate	1.0	3.2	Credit union	4.5	4.2
Other lines of credit	0.6	0.3	Vehicles	7.5	7.5	Finance or loan company	3.2	4.2
Other residential property	7.5	7.4	Goods and services	5.7	6.0	Brokerage	1.9	3.7
Other debt	2.8	3.7	Investment real estate	8.2	7.8	Real estate lender	32.7	35.9
			Education	2.7	3.4	Individual lender	5.0	3.4
			Other loans	2.4	1.9	Other nonfinancial	0.8	1.3
						Government	1.3	0.6
						Credit and store cards	3.9	3.8
						Other loans	0.9	0.7

Source of Tables 794 and 795: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, January 2000, and unpublished data.

No. 796. Ratios of Debt Payments to Family Income: 1992 to 1998

[In percent. Constant dollar figures are based on consumer price index data published by U.S. Bureau of Labor Statistics. Families include one-person units; for definition of family, see text, Section 1, Population. Based on Survey of Consumer Finance; see Appendix III. For definition of median, see Guide to Tabular Presentation]

Age of family head and family income (constant (1998) dollars)	Ratio of debt payments to family income						Percent of debtors with—					
	Aggregate			Median			Ratios above 40 percent			Any payment 60 days or more past due		
	1992	1995	1998	1992	1995	1998	1992	1995	1998	1992	1995	1998
All families	14.1	13.6	14.5	16.1	18.1	17.6	10.9	10.5	12.7	6.0	7.1	8.1
Under 35 years old	16.5	17.1	16.6	16.6	18.9	17.4	10.5	11.0	11.8	8.3	8.7	11.1
35 to 44 years old	17.8	18.6	17.0	19.0	18.1	19.4	11.6	9.2	11.6	6.8	7.7	8.4
45 to 54 years old	14.6	14.6	16.3	16.1	16.6	17.8	10.2	10.4	11.6	5.4	7.4	7.4
55 to 64 years old	11.4	11.5	12.9	14.5	14.0	16.7	14.3	14.5	13.9	4.7	3.2	7.5
65 to 74 years old	7.8	8.9	8.5	10.6	12.2	13.9	7.8	7.8	17.5	1.0	5.3	3.1
75 years old and over	3.4	2.9	3.9	5.0	3.4	8.9	8.7	8.9	20.9	1.8	5.4	1.1
Less than \$10,000	16.8	19.5	19.4	19.5	15.4	20.3	28.4	27.6	32.0	11.6	8.4	15.1
\$10,000 to \$24,999	14.8	16.1	16.2	15.3	17.7	17.8	15.5	17.3	19.9	9.3	11.3	12.3
\$25,000 to \$49,999	16.5	16.2	17.4	16.3	16.6	18.1	9.6	8.0	13.8	6.3	8.6	9.2
\$50,000 to \$99,999	15.3	16.0	17.4	17.0	16.9	18.3	4.4	4.2	5.7	2.2	2.7	4.5
\$100,000 and more	10.7	8.7	10.0	13.7	11.1	13.1	2.2	1.7	2.1	0.5	1.3	1.5

Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, January 2000, and unpublished data.

No. 797. Household Debt-Service Payments as a Percentage of Disposable Personal Income: 1980 to 1999

[In percent. As of end of year. Seasonally adjusted. The household debt-service burden is an estimate of the ratio of debt payments to disposable personal income. Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt]

Year	Total	Consumer	Mortgage
1980	12.41	7.99	4.42
1981	12.34	7.82	4.72
1982	12.33	7.47	4.85
1983	12.33	7.46	4.88
1984	12.83	7.80	5.03
1985	13.74	8.29	5.44
1986	14.18	8.50	5.69
1987	13.71	7.92	5.79
1988	13.34	7.58	5.77
1989	13.51	7.87	5.94
1990	13.24	7.11	6.14
1991	12.56	6.51	6.05
1992	11.70	6.03	5.67
1993	11.59	6.13	5.46
1994	12.01	6.52	5.49
1995	12.70	7.05	5.65
1996	13.09	7.44	5.65
1997	13.17	7.47	5.70
1998	13.29	7.57	5.72
1999	13.51	7.58	5.93

Source: Board of Governors of the Federal Reserve System, "Household Debt Service Burden," published: 24 March 2000; <<http://www.bog.frb.fed.us/releases/housedebt/default.htm>>.

No. 798. Banking Offices by Type of Bank: 1980 to 1999

[As of December 31. Includes Puerto Rico and outlying areas. Covers all FDIC-insured commercial banks and savings institutions. Commercial banks include insured branches of foreign banks. Data for 1980 include automatic teller machines which were reported by many banks as branches]

Item	1980	1985	1990	1994	1995	1996	1997	1998	1999
All banking offices	(NA)	82,367	84,332	81,135	81,273	82,468	83,514	84,332	85,404
Number of banks	(NA)	18,033	15,192	12,641	12,002	11,478	10,945	10,483	10,238
Number of branches	(NA)	64,334	69,140	68,494	69,271	70,988	72,569	73,849	75,166
Commercial banks	53,172	57,860	62,710	65,055	65,827	66,733	68,691	69,873	71,142
Number of banks	14,434	14,407	12,377	10,489	9,972	9,553	9,165	8,794	8,598
Number of branches	38,738	43,253	50,333	54,566	55,855	57,180	58,526	61,079	62,544
Savings institutions	(NA)	24,707	21,622	18,080	15,448	15,733	14,823	14,459	14,262
Number of banks	(NA)	3,626	2,815	2,152	2,030	1,925	1,780	1,689	1,640
Number of branches	(NA)	21,081	18,807	15,928	13,416	13,808	13,043	12,770	12,622

NA Not available.

Source: U.S. Federal Deposit Insurance Corporation, *Statistics on Banking*, annual and *The FDIC Quarterly Banking Profile Graph Book*.

No. 815. Consumer Credit Outstanding and Finance Rates: 1980 to 1999

[In billions of dollars, except percent (349.4 represents \$349,400,000,000). Estimated amounts of seasonally adjusted credit outstanding as of end of year; finance rates, annual averages]

Type of credit	1980	1985	1990	1993	1994	1995	1996	1997	1998	1999
Total	349.4	593.2	789.3	839.2	960.7	1,096.0	1,182.4	1,234.1	1,300.5	1,395.4
Revolving	55.1	124.7	238.6	310.0	365.6	443.2	499.5	531.3	560.7	596.0
Nonrevolving	294.3	468.5	550.7	529.2	595.1	652.8	682.9	702.8	739.8	799.4
FINANCE RATES (percent)										
Commercial banks:										
New automobiles (48 months) ²	14.32	12.91	11.78	8.09	8.12	9.57	9.05	9.02	8.72	8.44
Other consumer goods (24 months)	15.48	15.94	15.46	13.47	13.19	13.94	13.54	13.90	13.74	13.39
Credit-card plans	17.31	18.69	18.17	16.83	16.04	15.90	15.63	15.77	15.71	15.21
Finance companies:										
New automobiles	14.82	11.98	12.54	9.48	9.79	11.19	9.83	7.12	6.30	6.66
Used automobiles	10.10	17.58	15.99	12.79	13.49	14.48	13.53	13.27	12.64	12.60

¹ Comprises automobile loans and all other loans not included in revolving credit, such as loans for mobile homes, trailers, or vacations. These loans may be secured or unsecured. ² For 1980, maturities were 36 months for new car loans.

Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, monthly.

No. 816. Credit Cards—Holders, Numbers, Spending, and Debt, 1990 and 1998, and Projections, 2000

[The complete publication including this copyright table is available from the U.S. Government Printing Office and the National Technical Information Service]

No. 817. Usage of General Purpose Credit Cards by Families: 1989 to 1998

[General purpose credit cards include Mastercard, Visa, Optima, and Discover cards. Excludes cards used only for business purposes. All dollar figures are given in constant 1998 dollars based on consumer price index data as published by U.S. Bureau of Labor Statistics. Families include one-person units; for definition of family, see text, Section 1, Population. Based on Survey of Consumer Finance; see Appendix III. For definition of median, see Guide to Tabular Presentation]

Age of family head and family income	Percent having a general purpose credit card	Median number of cards	Median new charges on last month's bills	Percent having a balance after last month's bills	Median balance ¹	Percent of cardholding families who—		
						Almost always pay off the balance	Some-times pay off the balance	Hardly ever pay off the balance
1989, total	56.0	2	\$100	52.1	\$1,300	52.9	21.2	25.8
1992, total	62.4	2	100	52.0	1,100	53.0	19.6	27.4
1995, total	66.4	2	200	56.0	1,600	52.4	20.1	27.5
1998, total	67.5	2	200	54.7	1,900	53.8	19.3	26.9
Under 35 years old	58.3	2	200	71.8	1,500	39.0	22.5	38.5
35 to 44 years old	71.3	2	200	62.5	2,000	46.5	19.1	34.4
45 to 54 years old	76.3	2	200	59.2	2,000	40.2	22.7	29.1
55 to 64 years old	76.0	2	200	48.8	2,300	61.0	20.1	18.9
65 to 74 years old	71.2	2	200	33.9	1,000	74.0	14.9	11.1
75 years old and over	50.8	1	100	16.7	700	86.3	7.8	5.9
Less than \$10,000	23.2	2	100	64.0	900	46.4	19.9	33.8
\$10,000 to \$24,999	50.8	2	100	56.9	1,200	52.3	19.3	28.4
\$25,000 to \$49,999	73.2	2	100	58.2	1,700	48.3	20.5	31.2
\$50,000 to \$99,999	89.6	2	200	55.9	2,400	53.9	20.2	25.9
\$100,000 and more	97.9	2	800	36.4	3,100	72.0	13.8	14.1

¹ Among families having a balance.

Source: Board of Governors of the Federal Reserve System, unpublished data.

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Buyers with limited credit history may qualify for prime loans

Anthem uses rent, utility and insurance payments to evaluate borrowers

Wednesday, November 08, 2006

Inman News

First American Corp. has compiled a directory of more than 200 loan officers who are using its Anthem suite of credit reporting applications to help home buyers with limited credit histories qualify for prime-grade mortgage loans.

First American's Anthem Lender Directory is designed to help real estate agents, community-based organizations and home buyers find lenders who are using "the latest credit evaluation techniques to deliver the best possible loans at the best possible prices," the company said in a [press release](#).



According to First American's credit information subsidiary, First American CREDCO, 20 percent of Americans are "unscorable" using traditional credit bureau data. But they may qualify for prime-grade loans if an alternative payment history is used in the loan evaluation process.

Anthem augments traditional credit bureau data with rent, utilities, insurance and other types of payment histories to produce a more comprehensive view of a borrower's payment behavior, First American said. On a 30-year, \$300,000 loan, a family that qualifies for a 6 percent interest rate will pay \$600 less per month and save \$220,000 over the life of a similar loan with a 9 percent interest rate, the company said.

"Often the only barrier keeping that family from the lower rate is a credit score derived from data that does not fully reflect the borrower's willingness and ability to repay the loan," said Landon V. Taylor, vice president of market development at First American, in a statement. "Lenders who use alternative credit solutions are helping lift this barrier and leveling the playing field for prospective home buyers with nontraditional banking, credit and spending patterns."

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First American rolled out the Anthem directory at the National Association of Hispanic Real Estate Professionals convention in Las Vegas, along with new features in the application itself, including Spanish language credit reporting and disclosures, international credit data reporting, and automated individual tax identification number identification (ITIN) identification.

First American says Anthem meets mortgage loan underwriting and due diligence requirements of the U.S. Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac.

The company announced that the Neighborhood Housing Services of America is now using Anthem to help qualify "thin-credit/no-credit" borrowers for prime-grade mortgages.

Send tips or a Letter to the Editor to matt@inman.com or call (510) 658-9252, ext. 150.

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How Insurance Credit Scoring Models Really Work

A Review by TexasWatch of Credit Scoring Models Filed in Texas

Insurance companies claim they possess formulas that draw a cause-and-effect link between credit scores and driving risk or the likelihood that you will file a claim if hail damages your roof. Now that these formulas are available for public inspection, and a quick review raises serious questions about how the criteria can be tied to driving risk. Many criteria are contradictory, others penalize consumers who are simply using—not abusing—credit, and none are appropriate predictors of driving skill or risk.

The list below offers some examples of real credit scoring criteria used by some insurance companies to determine policyholder eligibility and rates for home and auto insurance. Various insurance companies use these criteria in varying weights and levels of importance.

Sample Credit Scoring Model Key	
+	Increases your credit score (favorable)
-	Decreases your credit score (unfavorable)
Increasing plus or minus signs indicate increasing magnitude	

Average number of months all accounts on file have been open 600 or more months 400 to 599 months 200 to 399 months 0 to 199 months	++	<i>You will be penalized until the average age of the accounts on your credit report reaches the arbitrary threshold chosen by your insurer.</i>
	+	
	-	
	--	
Number of accounts opened in the last year 0 (no accounts opened) 1 to 2 3 to 4 5 to 7 8 or more	+++	<i>Newly opened accounts count against your insurance credit score—even if your payments are current. This criteria penalizes young credit holders, but also consumers who have recently moved.</i>
	+	
	-	
	--	

Age of oldest account in months 0 to 24 months 25 to 72 months 73 to 192 months 193 to 312 months 313 to 432 months 433 months or more	--- -- - + ++ +++	<i>This is a double penalty against new accounts, but it can also raise rates for a homeowner who pays off a 30-year mortgage and closes his or her oldest account.</i>
Number of consumer initiated credit inquiries in last 2 years 0 (no inquiries in last 2 years) 1 2 3 4 5 6 or more	+++ ++ + - - -- ---	<i>Consumers will take a hit every time they: get cell phone service, rent an apartment, shop for a mortgage, take out a car loan, apply for a credit card, take out a school loan, open a utility account, etc.</i>
Number of credit card accounts open 0 to 1 2 3 4 5 6 to 9 10 or more	- ++ +++ ++ - -- ---	<i>Each different credit scoring model has a "magic number" for how many credit cards you should have to lessen your insurance risk. Two to four credit cards is optimal in most models. If you have more or less than the arbitrarily chosen number, your insurance score will decrease.</i>
Number of credit card accounts where balance is 75% or greater than limit 0 1 to 2 3 to 4 5 or more	++ + - --	<i>Penalizes people who actually use the credit extended to them—even if their accounts are current or paid off every month.</i>
Number of months since last account activity 0 (activity within last month) 1 month 2 months or more	+ - --	<i>Penalizes consumers who DON'T use the credit extended to them. If a consumer doesn't make a charge or make payments, he or she takes a hit on their auto insurance credit score.</i>

Number of installment loan accounts 0 1 2 or more	+ - --	<i>Installment loans are taken out from a bank and allow you to take possession of the property immediately while you pay back the loan in monthly installments (car loans for example). Having an open installment loan can hurt your credit score.</i>
Number of accounts in good standing with a balance 0 1 2 or more	- + ++	<i>Clearly this factor can hurt people who have not paid their accounts as due, but it can also hurt people who choose not to carry balances on their accounts.</i>
Number of open retail store or sale finance accounts 0 1 2 or more	+ - --	<i>Insurance companies prefer bank loans. This criteria penalizes consumers who open accounts for furniture sales, department stores or other personal finance companies.</i>
Number of open automotive related accounts 0 1 2 or more	+ - --	<i>Penalizes consumers who gain financing through car dealers, auto parts stores, tire stores, or other automotive retailers.</i>
Number of open oil company accounts 0 1 2 or more	- + +	<i>Penalizes consumers who do not have a gas company credit card.</i>
Number of public records (includes bankruptcies, liens, collections, etc.) 0 1 2 3 or more	+ - -- ---	<i>Not paying loans as agreed will hurt your credit score.</i>
Longest delinquency on an account No delinquencies 30 to 59 days late 60 to 89 days late 90 days or more	+ - -- ---	<i>Not paying loans as agreed will hurt your credit score.</i>

washingtonpost.com

Some Credit Card Issuers Keep Important Data Secret

By Kenneth R. Harney

Saturday, October 23, 2004; Page F01

New research by the Federal Reserve Board should set off alarm bells for anyone considering applying for a home mortgage: Behind your back, your credit card company could be hurting your credit standing by withholding key information from the national credit bureaus.

That could depress your credit scores and raise the interest rate on your home loan.

Three Federal Reserve staff economists studied a nationally representative, random sample of 301,000 credit files, and found that nearly half -- 46 percent -- of the consumers had files in which at least one credit limit had been withheld by a creditor.

Why is that significant? Say you finished school a couple of years ago, you have a good job and you're beginning to establish a solid credit history. You have one credit card with a \$2,500 limit on it. You run a modest monthly balance averaging \$250. You have never been late, never missed a payment. You're an excellent customer.

But unknown to you, your card issuer has a policy of not reporting fully the details about its customers' accounts. In your online national credit file, your monthly balances and payments are reported accurately. But your credit limit is left blank.

Why would your card issuer do that? To stymie competitors who routinely troll through the databases of the credit bureaus for possible customers by ordering lists of consumers with specific characteristics.

For example, a competing card issuer might look for people who live in a particular Zip code who have credit scores above a given threshold. The company might also seek consumers with young-looking "thin files," with just a few existing credit lines.

Here's the problem: One of the heavily weighted factors in most credit scores, whether the Fair Isaac Corp. (FICO) score or the credit bureaus' proprietary scores, is "utilization" of existing credit. If you are making heavy use of the credit accounts you already have, you are considered a greater risk of future default. Your scores go down.

To measure utilization, scoring systems look at the ratio of your highest balance to your credit limit. If you had a \$2,400 high balance against your \$2,500 limit, you would have a very high (96 percent) utilization ratio. The scoring program would penalize you for being nearly maxed out.

On the other hand, your \$250 balance against your \$2,500 limit produces a low 10 percent ratio -- and

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the scoring system should reward you for your prudent use of credit.

Now for the score killer: When a creditor reports no credit limit on an account, calculation of a utilization ratio is impossible. According to Federal Reserve researchers, when confronted with missing credit limits, most credit scoring systems "substitute the highest balance for the missing credit limit."

"The typical result," said the Fed, is higher credit utilization ratios "than if the credit limits had been reported." Artificially inflated ratios, in turn, typically depress credit scores, sometimes by 50 points or more, according to credit industry experts. The effect can be even more pronounced when the loan applicant is young or relatively new to credit.

The Fed researchers did not identify the credit card issuers who intentionally withhold customers' limits. But for 46 percent of the consumers in a random sample of 301,000 credit files to be affected by this score-depressing policy, the creditors involved must be numerous, big, or both.

Consumer advocates are outraged at the practice. "I think they are basically intentionally harming their own customers," said Evan Hendricks, author of "Credit Scores & Credit Reports," and editor of the newsletter Privacy Times.

Edmund Mierzwinski, consumer program director of the U.S. Public Interest Research Group, said "credit card companies wouldn't be incompletely reporting [credit limits] if they didn't think it deflated their customers' scores" -- and rendered cardholders less attractive to competitors.

How much can non-reporting of limits cost you on a mortgage? Potentially, hundreds of dollars a month and thousands of dollars a year. According to Fair Isaac, a 677 FICO score in today's market would qualify a borrower for a 6.23 percent 30-year fixed rate on a \$150,000 home loan. A 30-point drop in that score because of non-reporting of credit limits would push the best rate available to 7.38 percent. Monthly principal and interest to the applicant with the artificially depressed score would be \$115 a month higher than it should be.

How to battle non-reporting in a voluntary credit system? Easy. Ask your credit card issuers whether they report credit limits. Or get a copy of your credit file online (typical cost is about \$9.95), and check whether your limits are all there.

Then cancel all the cards that intentionally depress your credit scores.

Kenneth R. Harney's e-mail address is KenHarney@earthlink.net.

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2 Missing Numbers Can Doom a Loan

By Kenneth R. Harney

Saturday, January 1, 2005; Page F01

How far can your credit score plummet when your credit card issuer withholds your credit limit in its reports to the three national bureaus? And how costly could that be when you apply for a home mortgage?

The answer to both questions: A lot more than you might suspect. Consider this recent case documented by the software and technology firm CreditXpert Inc. of Towson. A loan applicant, a woman who lives in a suburb of Baltimore, had what is known in the mortgage industry as a "thin file" -- a relatively small number of banking accounts on file, including only one credit card.

Her card history extended back 13 years with no late payments. Her account carried a generous \$4,050 limit, according to CreditXpert researchers, but her card company had never reported either that important piece of information or her highest balance. At the time her bureau files were examined, she had a zero balance on the card. That, combined with her history of on-time payments, should have boosted her credit scores significantly.

But the card company's failure to report the credit limit or highest balance -- both crucial factors in computing the FICO scores that most mortgage lenders use to evaluate applicants and set interest rates -- knocked a shocking 66 points off the woman's score.

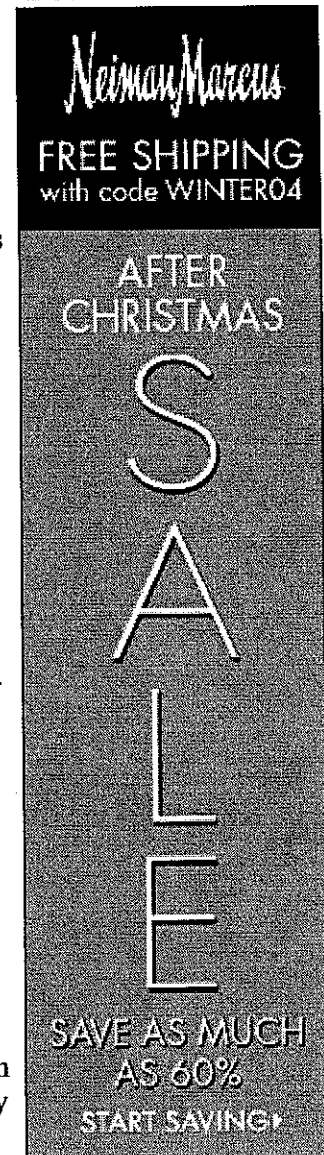
A 66-point loss is huge when it comes to obtaining a home mortgage. In her case, had she been applying for a fixed-rate, 30-year home loan of \$225,000 in late December from lenders active in her market, it would have cost her nearly \$9,000 in additional monthly payments during the first five years of her mortgage alone, according to Fair Isaac Corp.'s MyFico.com online rate calculator.

That extra expense would not have been caused by anything she did wrong, but rather by what the card company did without her knowledge: keep her good credit behavior a secret from potential competitors by withholding her credit limit and highest balance, thereby decreasing her credit score. Credit card companies sometimes try to hide their best customers' identities from other lenders trolling the credit bureaus' vast databases to prescreen targets for card offers. Typically the trollers ask the bureaus for lists of cardholders with higher scores, and avoid those with marginal or lower scores.

Home buyers with thin credit files -- typically younger households or minority group members who have not made extensive use of the credit system -- are the most vulnerable to this abuse, according to CreditXpert Vice President David D. Chung. But they are hardly the only victims.

Researchers at Chung's firm recently examined the credit files of a 40-year resident of Columbus, Ohio. He had extensive records at the national credit bureaus, with five revolving charge cards and six

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installment loans. However, because of missing credit limits on reports by two of his card companies, according to CreditXpert's analysis, the man lost 43 points from his credit scores -- again with painfully costly effects as a home buyer.

Several of the biggest card issuers told me, in interviews or e-mailed statements for this column, that their corporate policy is to report all customers' account limits and highest balances to the three national bureaus -- Equifax, Experian and TransUnion. Only Capital One Financial said it withholds limits as a matter of policy. However, credit industry researchers, including CreditXpert, say they routinely see consumer files with account limits missing or withheld, including from card issuers whose publicly stated policies are to the contrary.

One of the highest-volume card issuers, American Express, reports limits on some of its cards -- those with revolving monthly balances such as the Optima and Blue cards -- but does not report limits on its familiar Green, Gold and Platinum cards, which generally require payment of the full balance each month. According to Susan Korchak, American Express vice president for corporate affairs, "there is no preset limit" on these cards. So there is no credit maximum, at least as that concept is used by other card issuers and FICO scoring, to report to the national bureaus.

What can individual consumers do about flagrant nonreporting of limits by card companies that depress their scores and raise interest charges on home mortgages? Tops on the list: Get copies of your three bureau reports and check whether your card issuers are reporting fully. If you find they are not, complain bitterly, especially if you stake a lot of your personal credit history on your good behavior with their cards.

Then, if a card company refuses to report your credit limit, end the relationship. Transfer your balances to a company that will treat you as you deserve.

Kenneth R. Harney's e-mail address is KenHarney@earthlink.net. To read his Dec. 25 article on credit limit reporting, see www.washingtonpost.com/realestate.

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Credit Card Limits Often Unreported

By Kenneth R. Harney

Saturday, December 25, 2004; Page F01

It is a well-kept little secret of the credit card industry -- and it can be exceptionally costly to home buyers and mortgage applicants.

The secret is this: Your credit card company may be depressing your credit scores by not reporting your credit limit to the three national credit bureaus. Lower credit scores, in turn, push you into higher interest rates when you apply for a mortgage, and can add thousands of dollars of needless extra costs for you as a homeowner.

If you carry a Capital One credit card, you can be 100 percent certain that your credit limit is never reported because Capital One confirmed to me that its corporate policy is to withhold limits, whether it depresses some customers' scores or not.

If you have other cards in your wallet, you will need to check your credit files to determine whether your limits are reported. Though most major bank card issuers say their policy is to report customers' credit limits monthly, researchers say that limits frequently are missing in the bureaus' files. A recent Federal Reserve Board study that analyzed 301,000 consumer credit files found that 46 percent of all consumers in the sample were missing at least one credit limit on their national reports.

The problem of nonreported credit limits is most severe, according to credit industry experts, for younger home buyers, newcomers to the banking and credit arenas, and others with relatively thin credit histories.

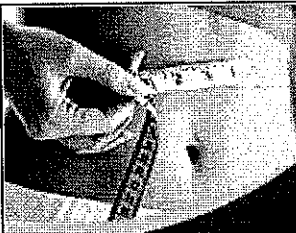
"There is no doubt that [nonreporting of limits] has a major negative impact on consumers with thin files," said Terry W. Clemans, executive director of the National Credit Reporting Association.

The reason, Clemans said, is that the most widely used scoring system in the mortgage field -- the FICO score developed by Fair Isaac Corp. -- assigns 30 percent of a person's score to what is known as "utilization" of available credit. Utilization boils down to this: If you have a card with a \$1,000 limit and you are carrying a \$950 balance, you have a 95 percent utilization rate. FICO's scoring system subtracts points for such high ratios.

On the other hand, if you are revolving a \$250 balance on the same card, you are rewarded with points because of your seeming moderate, responsible use of your available credit.

What happens if your credit card company withholds or fails to report your credit limit? The scoring system typically substitutes your highest reported balance on the card for your missing limit. That, in turn, will often depress your score by raising your utilization rate.

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For example: Your card has a \$5,000 limit but the highest balance you have ever racked up was \$1,000. That should add points to your score, as befits a modest 20 percent utilization ratio. But if your card company hasn't reported your limit, the scoring system will treat your high balance of \$1,000 as a proxy for your actual limit.

But what if you regularly carry an \$800 or \$900 balance on that card? Suddenly your utilization looks scarily high, and your score plunges -- especially if that card is one of the few big credit accounts in your national bureau files. Depending upon your overall credit profile, you could lose 20 to 50 points, or even more, because of that missing credit limit.

What does a 20-point to 50-point drop in your FICO score do to you when you apply for a home loan? According to Fair Isaac's Web site, www.MyFico.com, in mid-December an applicant for a \$150,000 30-year fixed-rate mortgage with a 700 FICO score would be quoted a 5.79 percent interest rate, costing \$880 a month in principal and interest. An applicant with a FICO score of 660, just 40 points lower, would be quoted a 7.48 percent rate, with monthly principal and interest payments of \$1,047. That \$167 extra a month would raise loan costs \$2,004 a year, and would be a needless, unfair expense to the home buyer if it were caused by a card company's failure to report a customer's credit limit.

Why would a card issuer do such a thing? McLean-based Capital One Financial Corp., one of the largest issuers in the country, heavily markets its cards to young consumers and individuals with imperfect or thin credit histories. It says it does not report any customers' limits because "we consider [limits] proprietary" information, and "because we do not think it would be appropriate to impact the individual's Fair Isaac score -- positively or negatively -- by reporting them."

Fair Isaac itself, by contrast, supports full reporting of account information. Cheri St. John, Fair Isaac's vice president of scoring and consumer solutions, says "the more data, the better" -- positive or negative -- when it comes to fairness in credit scoring.

Kenneth R. Harney's e-mail address is KenHarney@earthlink.net.

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**Personal insurance credit inquiry
for John Doe****PROGRESSIVE®**

Page 1 of 2

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	You	Average
Experience you have with managing credit		
Months you have managed credit	48 Months	96 Months
Age at which you first established credit	16	21
Number of times a payment was past due more than 30 days	4	1
Current payment status of installment loans and revolving accounts		
Number of loans and accounts with a satisfactory current payment record	2	5
Number of credit card accounts currently past due more than 30 days	0	0
Use of available credit		
Percent of available credit limit currently being used on revolving accounts	88%	35%
Percent of available credit limit currently being used on all open accounts	70%	56%
Months since your most recent auto loan was made	12 Months	4 Months
Credit inquiries you initiated in the past 25 months	5	4
Insurance Credit Score	116	100

Your payment and credit history information was obtained from Experian. More detailed information can only be obtained by you by calling Experian at 1-888-397-3742. You may order a copy of your credit report free of charge.

Definitions

Installment loans have fixed terms with regular payments, such as a car loan, home loan, student loan, or personal loan. Revolving accounts have varying payments depending on the balance of the account. This includes all major credit cards and cards from department stores.

Personal insurance credit inquiry for John Doe

How your insurance credit score is determined

A lower score is better, as it indicates that you have carefully and consistently managed credit over many years. Consumers who use credit responsibly are statistically less likely to be involved in auto accidents and may be eligible for lower rates. To determine your insurance credit score, we subtract points for items that are better than average and add points for items that are worse than average.

Every consumer starts with the same number of points

100

Items better than average:

First established credit at age 16

-10

12 months since last auto loan was made

-7**Total of all better than average items****-17**

Items worse than average:

Managed credit for 48 months

18

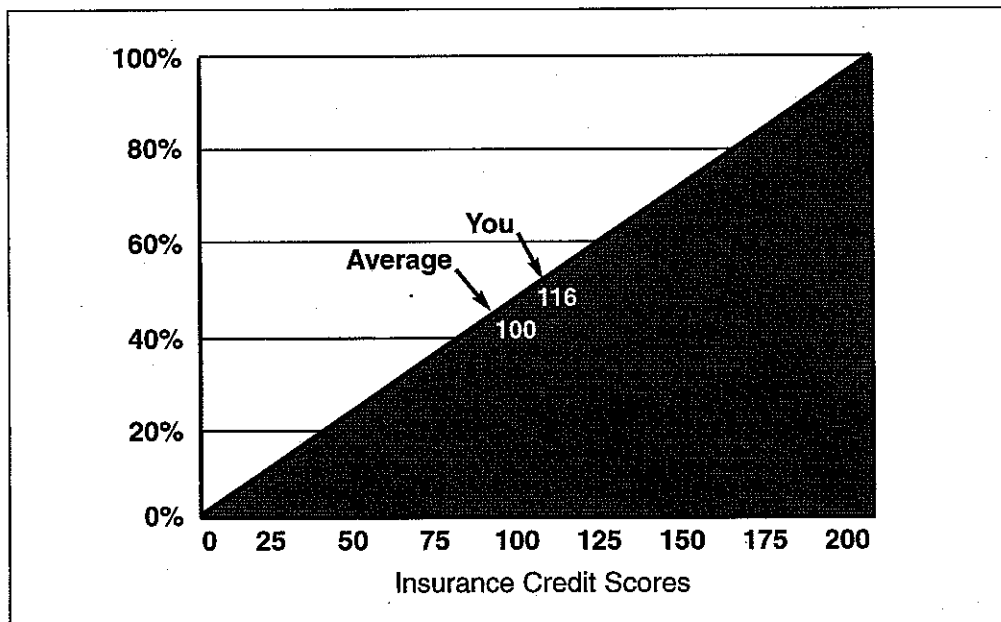
2 loans and accounts that are current

8

88% of available credit in use

4

5 credit inquiries in the past 25 months

3**Total of all worse than average items****33****Your insurance credit score =****116**

Consumers who received a quote from Progressive in the past 6 months had an average insurance credit score of 100.

Your insurance credit score is 116 and is lower than 44% of consumers who received a quote from Progressive in the past 6 months, but is higher than the average.

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American Insurance Association

Law Department

STATEMENT OF THE
AMERICAN INSURANCE ASSOCIATION

*On the
Lack of Correlation Between Income and Credit Score
Whether Tested Against the Average or Median Score*

March 1999

In December 1998, the Market Conduct and Consumer Affairs Subcommittee of the National Association of Insurance Commissioners (NAIC) conducted a public hearing on Urban Insurance Marketplaces. The Subcommittee focused on credit scoring in the business of insurance and its impact on insurance availability, affordability, accessibility and other conditions affecting consumers in urban insurance markets.

Insurers' freedom to use credit scoring as a tool to underwrite and price premium for new applicants for insurance or to evaluate insurance renewals has been hampered by unfounded fears that credit scoring operates unfairly. For example, it has been speculated that credit scoring might discriminate against populations distinguishable by income. The concern is that lower income populations fare poorly when credit scoring is used to evaluate their insurance risk characteristics.

The American Insurance Association (AIA) testified at the NAIC hearing with the benefit of member company analysis of this issue. The precise objective of the AIA company analysis was to determine the extent to which credit score is correlated with income. AIA presented important, new evidence that credit scores do *not* unfairly discriminate against or even negatively impact lower income groups. Indeed, research revealed that the lowest income groups have the highest average credit score.

Commissioner Steven Larsen (MD) questioned AIA Assistant General Counsel Michael Lovendusky whether the presentation of the data by "average score" might be enhanced by a presentation of the data by "median score by income group". AIA returned to its member company investing resources to test the utility of credit scoring for consideration of this inquiry. AIA is pleased to share with the National Association of Insurance Commissioners additional information on the data used to test the fairness of using credit scoring on a variety of individuals from all income levels; the nature of the statistical analysis; and the analytical results. The analysis concluded that *credit score is not significantly correlated with income* for the AIA company's policyholders.

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American Insurance Association
On The Lack of Correlation Between Income and Credit Score

2

The Data Underlying The Study

Since 1995, the AIA company has used a credit scoring model in conjunction with other underwriting criteria. This credit scoring model was developed by Fair, Isaac and Company, Inc. It uses an individual's detailed credit history to predict his or her relative loss performance.

The credit scoring model uses characteristics from the credit history such as public notices (e.g. bankruptcies, tax liens), credit account trade line (e.g. date opened, delinquency, payment due, balance) and additional credit inquiries. It makes no use or reference to personal characteristics such as income, net worth, ethnicity and location. The model was developed with data from over a dozen insurers using over 1.4 million policies representing over \$1.5 billion in earned premium and nearly \$900 million in incurred losses. Each acceptable characteristic was evaluated as to its correlation to loss ratio and the most predictive characteristics were weighted so that the sum of the weighted characteristics is a score predicting expected loss ratio performance. The model calculates a score that ranges from 200 to 997 with 200 representing risks with the worst expected loss performance and 997 representing risks with the best expected loss performance.

The analysis was based on the Equifax PLS Credit scores for Homeowners and Personal Auto policyholders in force from 1995 through 1997. Thus it includes a broad spectrum of policyholders of varying ages, geographical areas, rating classes and incomes. Estimated income information was obtained from Axiom's Consumer InfobaseTM product in terms of nine ranges: Under \$15,000, \$15-19,000, \$20-29,000, \$30-39,000, \$40-49,000, \$50-74,000, \$75-99,000, \$100-124,000 and \$125,000 or more. Both credit score and estimated income information was available for approximately 470,470 policies.

The Analysis of Income With Credit Score

A linear regression of credit score versus income computed the associated statistical parameters that measure correlation. The coefficient of correlation (R), which measures the linkage or connection between credit score and income, was calculated. A coefficient of correlation of 0% represents no correlation or linkage; a coefficient of 100% represents full correlation or linkage. The coefficient of correlation between credit score and income for the policyholders was only 2.5%, demonstrating the absence of any significant correlation.

American Insurance Association
On The Lack of Correlation Between Income and Credit Score

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The following table displays the income distribution for the 470,470 policyholders.

INCOME DISTRIBUTION

INCOME RANGE	FREQUENCY	PERCENT	CUMULATIVE PERCENT
< \$15,000	27,939	5.9%	5.9%
\$15,000- \$19,999	23,554	5.0%	10.9%
\$20,000- \$29,999	50,830	10.8%	21.7%
\$30,000- \$39,999	56,688	12.0%	33.8%
\$40,000- \$49,999	55,723	11.8%	45.6%
\$50,000- \$74,999	109,201	23.2%	68.9%
\$75,000- \$99,999	66,945	14.2%	83.1%
\$100,000- 124,999	41,300	8.8%	91.9%
\$125,000 or more	38,290	8.1%	100.0%

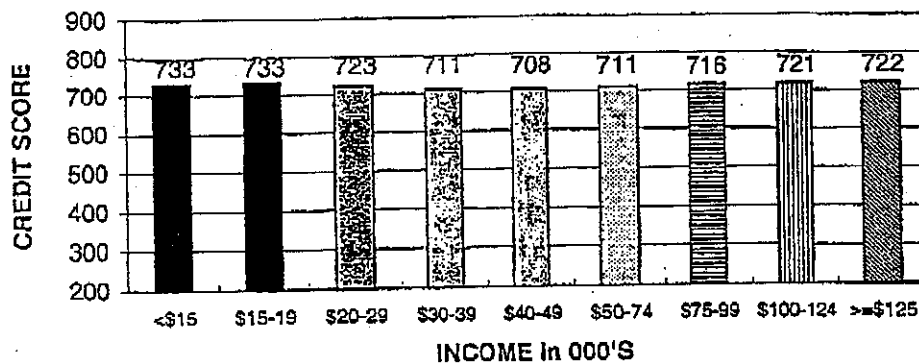
The Results of the Analysis of Income With Credit Score

The analysis concluded that *credit score is not significantly correlated with income* for the ALA company's policyholders. This conclusion is based on the standard statistical tests of correlation. To the extent that there is a correlation, lower incomes are associated with higher credit scores. Based on the information available for company policyholders, there is no evidence that credit scores unfairly discriminate against lower income groups. The analytical results are displayed graphically below.

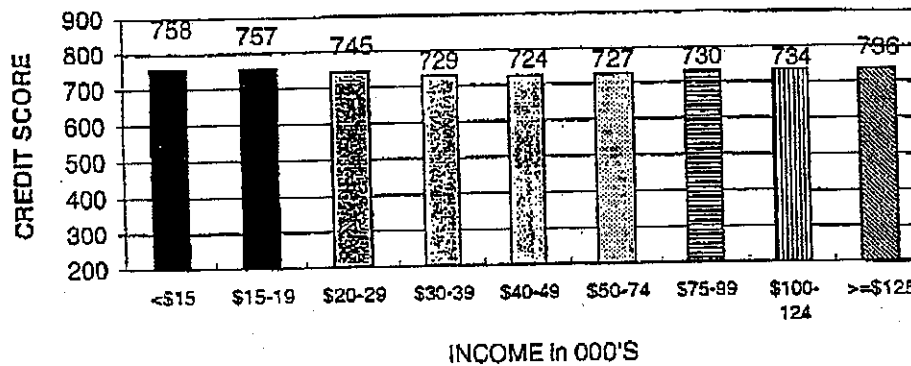
American Insurance Association
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4

AVERAGE SCORE BY INCOME GROUP



MEDIAN SCORE BY INCOME GROUP



The above two charts display the average and median credit scores for each of the nine income ranges. These charts clearly show that neither the average credit score nor the median credit score vary significantly across the income groups for the AIA company's policyholders. In addition, the variation in score is not monotonic. In other words, as income increases, score does not always increase or always decrease. Income does not have

American Insurance Association
On The Lack of Correlation Between Income and Credit Score

5

a clear impact on credit score. In fact, the lowest income groups have the highest average and median credit score.

How This Information Is Improved Over That Published in 1998

The information used for the current analysis was improved in several significant ways from that used for the 1998 AIA testimony. The updated information reflects the following:

- The score information was refreshed to obtain a better percentage of matching records. This had a minor impact on the average score versus the income chart. The chart shows the same pattern as the 1998 chart.
- The median score versus income chart is entirely new. It addresses concerns that use of average score may be misleading. Average score is not misleading; the median score chart displays the exact same pattern as the average score chart.
- The income distribution table was modified to include only those policyholders for whom the company had both credit score and income information. The 1998 information included all policyholders for which the company had income information even if it did not have credit score. The change has virtually no impact on the distribution but makes the data underlying the table completely consistent with the data underlying the charts. The company changed the number of policies cited to 470,470, which represents the policies for which it had both score and income. The 1998 information referenced 700,000 policyholders for which the company had income data.
- The coefficient cited in the statistical test section for the updated scores was updated. It changed from 4.2% to 2.5%. Both numbers indicate no significant correlation. This paper is rhetorically improved to clarify that it cites the coefficient of correlation; the 1998 testimony mistakenly referred to "the coefficient of determination."
- The AIA company policyholder information is not derived from all of its policyholders but from those underwritten from its independent agency distribution system.

Implications for Public Policy

Credit history is a source of affordable, objective information that is useful to insurers, readily available in the market, and beneficial to consumers. Insurers are expressly authorized to use credit history pursuant to the federal Fair Credit Reporting Act. This federal law also expressly bars inconsistent state regulation. The use of credit scoring for underwriting and pricing of personal lines insurance is relatively new. There is no evidence of market misconduct

American Insurance Association
On The Lack of Correlation Between Income and Credit Score

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on the part of insurers using credit scoring. Such misconduct would be discoverable and punishable under existing state unfair trade practices laws. For these reasons, insurance use of credit history should not be hampered with new or special state regulation, since the mere proliferation of inconsistent state regulatory treatments will add costs and uncertainties to the use of credit history that undermine its cost-effectiveness for insurers and consumers alike.

AIA represents 387 property and casualty insurers doing business throughout the United States. AIA members wrote \$66.8 billion in direct premium -- more than 24% of the market -- in the United States in 1997, the most recent year for which data is available. In particular, AIA members wrote \$18.4 billion (30%) in homeowners' and \$11.3 billion (10%) in private passenger automobile premiums. The AIA participates extensively in NAIC discussions on the use of credit history for insurance, and cooperated with regulators notably in the formulation of the NAIC white paper on *Credit Reports and Insurance Underwriting* (1997). For more information about insurance industry interest in use of credit history, please contact

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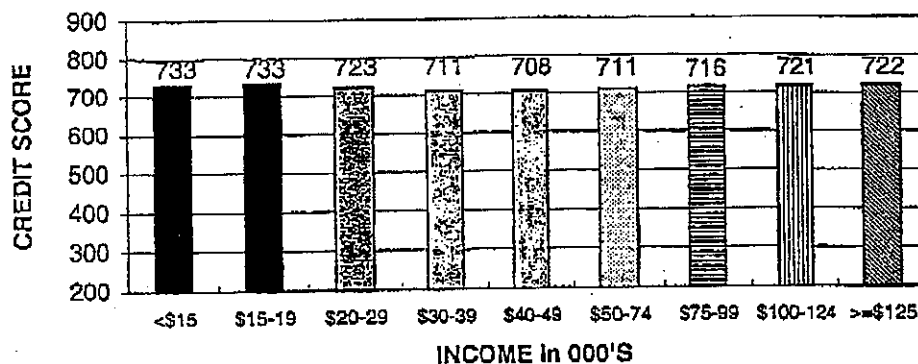
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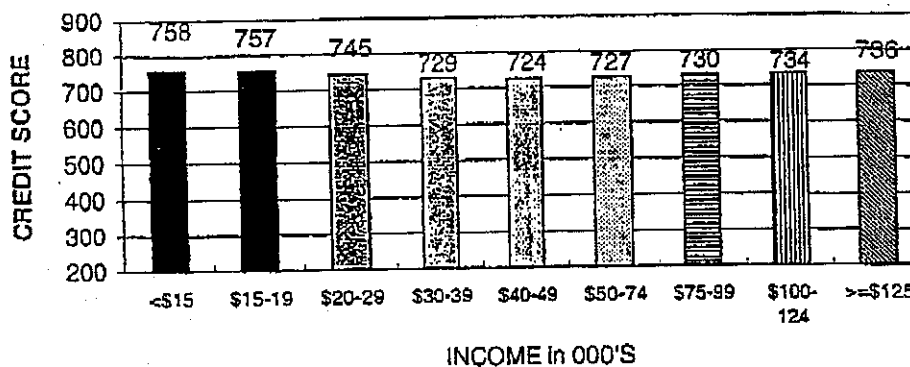
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How This Information Is Improved Over That Published in 1998

The information used for the current analysis was improved in several significant ways from that used for the 1998 AIA testimony. The updated information reflects the following:

- The score information was refreshed to obtain a better percentage of matching records. This had a minor impact on the average score versus the income chart. The chart shows the same pattern as the 1998 chart.
- The median score versus income chart is entirely new. It addresses concerns that use of average score may be misleading. Average score is not misleading; the median score chart displays the exact same pattern as the average score chart.
- The income distribution table was modified to include only those policyholders for whom the company had both credit score and income information. The 1998 information included all policyholders for which the company had income information even if it did not have credit score. The change has virtually no impact on the distribution but makes the data underlying the table completely consistent with the data underlying the charts. The company changed the number of policies cited to 470,470, which represents the policies for which it had both score and income. The 1998 information referenced 700,000 policyholders for which the company had income data.
- The coefficient cited in the statistical test section for the updated scores was updated. It changed from 4.2% to 2.5%. Both numbers indicate no significant correlation. This paper is rhetorically improved to clarify that it cites the coefficient of correlation; the 1998 testimony mistakenly referred to "the coefficient of determination."
- The AIA company policyholder information is not derived from all of its policyholders but from those underwritten from its independent agency distribution system.

Implications for Public Policy

Credit history is a source of affordable, objective information that is useful to insurers, readily available in the market, and beneficial to consumers. Insurers are expressly authorized to use credit history pursuant to the federal Fair Credit Reporting Act. This federal law also expressly bars inconsistent state regulation. The use of credit scoring for underwriting and pricing of personal lines insurance is relatively new. There is no evidence of market misconduct

American Insurance Association
On The Lack of Correlation Between Income and Credit Score

6

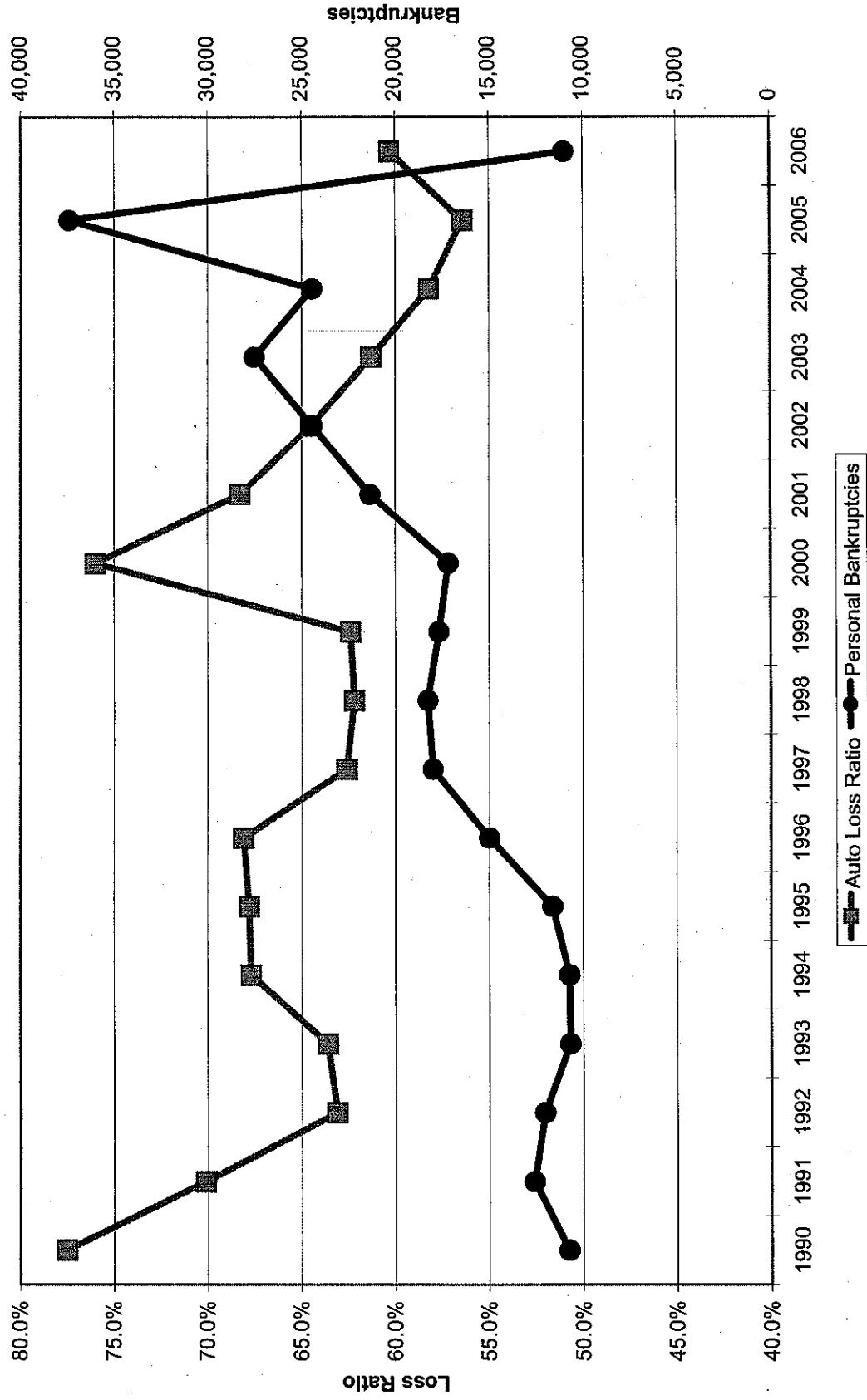
on the part of insurers using credit scoring. Such misconduct would be discoverable and punishable under existing state unfair trade practices laws. For these reasons, insurance use of credit history should not be hampered with new or special state regulation, since the mere proliferation of inconsistent state regulatory treatments will add costs and uncertainties to the use of credit history that undermine its cost-effectiveness for insurers and consumers alike.

AIA represents 387 property and casualty insurers doing business throughout the United States. AIA members wrote \$66.8 billion in direct premium -- more than 24% of the market -- in the United States in 1997, the most recent year for which data is available. In particular, AIA members wrote \$18.4 billion (30%) in homeowners' and \$11.3 billion (10%) in private passenger automobile premiums. The AIA participates extensively in NAIC discussions on the use of credit history for insurance, and cooperated with regulators notably in the formulation of the NAIC white paper on *Credit Reports and Insurance Underwriting* (1997). For more information about insurance industry interest in use of credit history, please contact

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Chart4

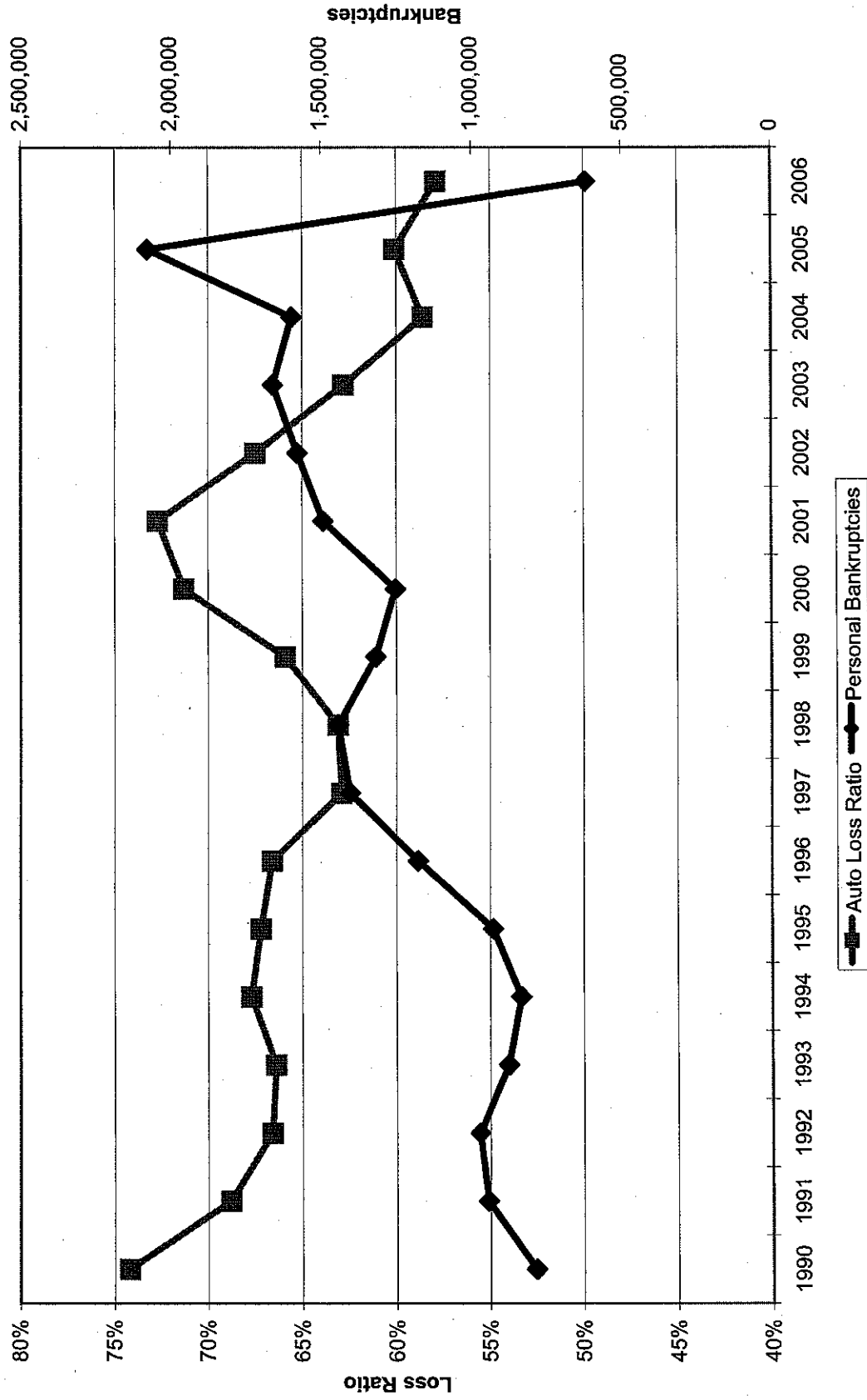
Wisconsin Auto Insurance Loss Ratios and Personal Bankruptcies



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Chart2

Countrywide Auto Insurance Loss Ratios and Personal Bankruptcies



**Private Passenger Auto Insurance Loss Ratios and Personal Bankruptcies
Wisconsin and Countrywide, 1990-2006**

	<i>Wisconsin</i>		<i>Countrywide</i>	
	Loss Ratio	Bankruptcies	Loss Ratio	Bankruptcies
1990	77.5%	10,766	74.2%	718,107
1991	70.1%	12,604	68.8%	872,438
1992	63.1%	12,041	66.6%	900,874
1993	63.6%	10,696	66.4%	812,898
1994	67.7%	10,735	67.7%	780,455
1995	67.8%	11,628	67.2%	874,642
1996	68.1%	14,987	66.6%	1,125,006
1997	62.6%	17,984	62.9%	1,350,118
1998	62.2%	18,277	63.1%	1,398,182
1999	62.4%	17,670	65.9%	1,281,581
2000	76.0%	17,164	71.3%	1,217,972
2001	68.3%	21,347	72.7%	1,452,030
2002	64.5%	24,439	67.5%	1,539,111
2003	61.3%	27,524	62.8%	1,625,208
2004	58.2%	24,439	58.6%	1,563,145
2005	56.4%	37,420	60.1%	2,039,214
2006	60.3%	11,010	57.9%	597,965

Data Source: Loss Ratios from National Association of Insurance Commissioners,
Report on Profitability By Line By State, various editions
 Bankruptcies from American Bankruptcy Institute web site

**Percentage of Uninsured Wisconsin Drivers
Estimated by the Insurance Research Council**

1999	12.1%
2000	12.6%
2001	13.4%
2002	14.4%
2003	14.2%
2004	14.2%



Consumer Federation of America



For Immediate Release

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Consumer and Civil Rights Groups Reject Federal Report on Insurance Credit Scoring

Fatally-Flawed Report Relies on Handpicked Data by Insurance Industry, Fails to Respond to Congressional Mandate

WASHINGTON, DC – July 24, 2007 – Representatives of consumer and civil rights organizations today condemned a congressionally-mandated report on insurance credit scoring by the Federal Trade Commission (FTC) as biased insurance industry propaganda. The groups called for Congress to reject the defective study and ban the use of credit scoring in insurance.

Insurance credit scoring is the use by insurers of consumers' credit reports for determining insurance eligibility and premiums. Unknown to most consumers, insurers' use of consumer credit information has spread to almost all insurers and is one of the most important factors in determining how much a consumer pays for auto or homeowners insurance.

Previous studies by the Missouri and Texas Departments of Insurance have found that insurance scoring discriminates against low income and minority consumers because of the racial and economic disparities inherent in scoring. The Missouri study concluded that a consumer's race was the single most predictive factor determining a consumer's insurance score and, consequently, the consumer's insurance premium.

Before the introduction of the credit scoring systems the insurance industry had used other unsupported standards and stereotypes with a racial proxy effect. After the major companies were sued for fair housing violations and were forced to eliminate these practices, the industry introduced a new practice – credit-based insurance scoring – that consumer and civil rights groups see as re-introducing racial and ethnic effects into the pricing of insurance.

The relationship between insurance credit scores and race is so strong that even though the FTC used data handpicked by the industry, it found that credit scoring discriminates against low income and minority consumers, and that insurance scoring was a proxy for race.

Representatives of the Consumer Federation of America, the National Fair Housing Alliance, the National Consumer Law Center, and the Center for Economic Justice said the FTC study is fatally flawed because the insurance industry controlled the data used in the analysis. Instead of requiring the submission of comprehensive policy data by a large number of insurers, the FTC used data handpicked by the insurance industry.

“The FTC’s approach to collecting data for the analysis is like the federal government trying to do a study on the health impacts of tobacco use with data selected by tobacco companies for the study,” said Allen Fishbein of the Consumer Federation of America. “By relying on handpicked data, the insurance industry was unnecessarily given opportunity to control the outcome of the study.”

The FTC study also confirms that, despite growing reliance on credit-based insurance scores, scant evidence exists to prove there is a meaningful connection between a consumer’s score and auto insurance losses. Without the need to demonstrate such a connection, insurers could use any consumer characteristic, such as hair color, to price insurance products.

“Despite finding no explanation for the alleged connection between insurance scores and losses, the FTC report somehow concludes credit scoring is valid and good for consumers. This is not an impartial analysis, but simply advocacy for insurers,” said Birny Birnbaum of the Center for Economic Justice. Birnbaum, a former insurance regulator, has studied insurance scoring for over 15 years.

The groups also dismissed the report for failing to respond to the Congressional mandate to examine the impacts of insurance credit scoring on the availability and affordability of auto and homeowners insurance, and for parroting insurance industry propaganda about insurance credit scoring. Section 215 of the Fair and Accurate Credit Transactions Act of 2003 required the Federal Reserve Board and the FTC to study the impact of credit scoring on the availability and affordability of credit and insurance and to determine whether credit scoring was truly related to insurance losses or simply a proxy for race, income or other factors.

“Incredibly, the FTC report downplays its own findings about the racial impact of insurance scoring – the primary question asked by Congress – and emphasizes the allegedly ‘predictive’ nature of credit scoring,” said Chi Chi Wu, staff attorney at the National Consumer Law Center. “It’s outrageous that the FTC says that ‘credit scoring is good for consumers’ when it has a

disparate impact on minorities. The FTC appears to believe minorities aren't 'consumers' worth protecting."

Buried in the report is the fact that the alleged correlation between risk and credit-based insurance scores might be explained by other factors. Instead of pursuing these other factors, the FTC employed subjective and pejorative racial stereotypes to try to support the alleged link between credit-based insurance scores and legitimate risk.

"To add insult to injury, the FTC report mimics the insurance industry blaming-the-victim psychobabble of claiming credit history is related to responsibility and risk management. A look at the actual scoring models shows that socio-economic factors have more impact on the score than loan payment history and that an insurance credit score has little to do with personal responsibility and everything to do with economic and racial status," said Shanna L. Smith, president and CEO of the National Fair Housing Alliance.

The group calls on Congress to reject this flawed and biased study and to tell the FTC to conduct an objective, independent study. In addition, based on the available evidence of racial discrimination, Congress should ban the use of insurance credit scoring.

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Center for Economic Justice is a Texas-based non-profit organization that advocates on behalf of low income and minority consumers on insurance, credit and utility issues

Consumer Federation of America is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

National Consumer Law Center is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC recently released *Credit Scoring and Insurance: Costing Consumers Billions and Perpetuating the Economic Racial Divide*, available at www.consumerlaw.org.

National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights groups, and individuals from 37 states and the District of Columbia. Headquartered in Washington, DC and founded in 1988, NFHA, through comprehensive education, advocacy and enforcement programs, provides equal access to housing for millions of people.